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EXAMINATION OF 15 PER CENT RESERVE OF TOTAL APPROPRIATIONS

Proposal by the Director-General

Summary

A proposal is presented of the conditions required for the release of reserves in the regular budget, based on the experience gathered so far in the application of the 15 per cent reserve of appropriations.

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Introduction

1. When approving the programme and budgets for the bienniums 1988-1989 (decision GC.2/Dec.22) and 1990-1991 (decision GC.3/Dec.23), the General Conference decided that an amount representing 15 per cent of the total amount of the appropriations for those bienniums should be kept in reserve by the Director-General pending receipt from Member States of their assessed contributions.

2. In its conclusion 1990/4(e), the Programme and Budget Committee recalled the General Conference decisions mentioned above as well as paragraphs 60 to 62 of the report of the External Auditor (PBC.6/15 and Corr.1 - IDB.7/11 and Corr.1) and the opening statement of the Director-General on the subject of the 15 per cent reserve of regular budget appropriations, and requested the Director-General to prepare proposals to permit, at the seventh session of the Committee, an examination of the stipulation that an amount representing 15 per cent from the total amount of appropriations should be kept in reserve pending receipt from Member States of their assessed contributions.

3. In paragraph 62 of his report, the External Auditor advised the Secretariat that in order to provide a clear and transparent framework for regular budget implementation, the policy-making organs of the Organization may formulate, if deemed appropriate, details on the scope, conditions and limits of decisions regarding the retention of budgetary surpluses and restrictions on regular budget implementation.

4. In his opening statement to the sixth session of the Programme and Budget Committee, the Director-General explained that it had not been possible for the Organization to maintain the 15 per cent reserve of appropriations pending the receipt of contributions, given the difficulties encountered by UNIDO in maintaining a high vacancy factor while coping with continuous serious cash-flow difficulties and implementing an approved programme of work.

I. 1988-1989 BIENNIUM

5. During the 1988-1989 biennium, the Organization made efforts to adhere to the rule on the 15 per cent reserve of appropriations. However, the problems mentioned in paragraph 4 above were compounded by the actual irregular pattern of payment and the non-payment of assessed contributions as well as the Organization's expectations of receiving assessed contributions. Therefore, the Organization could not observe the rule on the 15 per cent reserve of appropriations and, at the same time, ensure a regular monthly flow, within the overall appropriation level, of expenditures required to implement the approved programme of work. As noted in GC.3/CRP.10, paragraph 2, as at 20 November 1989, unpaid assessed contributions for the period 1986 to 1989 amounted to $9,913,706 and AS 402,304,037, thus yielding a total equivalent of $41,100,055 at an exchange rate of US$1 = AS 12.90. The outstanding assessed contributions at 20 November 1989 represented 56 per cent of 1989 appropriations.

II. 1990-1991 BIENNIUM

6. The retention of 15 per cent of the appropriations by way of budgetary reserves for 1990

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led to increasing difficulties in the planning of resources to implement the approved programme of work.

7. The application of the 15 per cent budgetary reserve against all objects of expenditure pending receipt of assessed contributions from Member States has proved impractical given the nature of the activities supported by those expenditures. For example, the common services and the contributions to the joint activities provided by the United Nations and the International Atomic Energy Agency, which account for some 19 per cent of appropriation expenditures represent ongoing activities which require long-term planning with a consistent funding commitment. In addition, many essential activities such as those carried out by the policy-making organs and the high priority activities of the Industrial Development Decade for Africa and the regular programme of technical co-operation which account for some 9 per cent of appropriation expenditures cannot bear the full impact of the 15 per cent reserve.

8. Those objects of expenditure against which reserves can be made represent only 5.8 per cent of the appropriations (consultants' fees and travel, ad hoc expert group meeting funds and official travel of staff).

9. Staff costs represent the remaining appropriation expenditure estimates. A 15 per cent reserve in the regular budget against staff costs in 1990 would have resulted in a vacancy factor of 25 per cent for Professionals (100 posts), 21 per cent for General Service staff (97 posts) and 17 per cent for Manual Workers (17 posts). In fact, while the programme and budgets, 1990-1991 provide for a 9 per cent vacancy factor for Professional posts, a vacancy factor of 11.4 per cent was achieved for 1990. A graphic description of the impact of the 15 per cent budgetary reserve on established posts in 1990 is given below. However, the level of budgetary reserves for staff costs would need, to some extent, to be increased to compensate for the downward adjustments in the budgetary reserves for the activities mentioned in paragraph 6 above and therefore the increase in the vacancy factor and reduction in staff numbers would be correspondingly greater.

III. PROPOSAL FOR THE RELEASE OF BUDGETARY RESERVES

10. While recognizing the need to maintain an adequate reserve consistent with available cash resources the Secretariat is unable to adhere to the 15 per cent reserve rule without implementing major programme reductions which will severely restrict the Organization's ability to function and deliver its programme of work.

11. The solution to this very serious problem lies in the hands of those Member States who either have not paid their outstanding assessed contributions or pay late or in several instalments instead of complying with financial regulation 5.5(b).

12. The Director-General proposes that, in future, the release of budgetary reserves in the regular budget takes into account: (a) the anticipated assessed contribution receipts based on previous experience or information received from Member States, (b) the level of unliquidated obligations which are to be paid during the next financial year and (c) the cash resources available to the Organization.

IV. ACTION REQUIRED OF THE COMMITTEE

13. The Committee may wish to consider the proposal contained in this document.

Regular budget – 1990

The impact on posts of 15% reserve against appropriations